

# Chamber Foreign Exchange

## FX\* Simplified

\*Foreign exchange

Improve your knowledge of foreign exchange terms with our jargon buster.

### Active account

An account at a brokerage firm or a bank which generates more activity and transactions than normal, which focuses on outperforming a benchmark index.

### Aggregate

Total or sum.

### Ask

The lowest price that any investor or dealer has declared that they will sell at.

### At par

A term used to state that a price is the same as the face value.

### At the close

Also known as 'on close'. The end of a trading session.

### Balance

The amount of money in an account.

### Base rate

The UK base rate is generally the average interest rate that British banks charge to their customers, the equivalent to the prime rate in the US.

### Basis point

A basis point is defined as 1/100 of 1% and is used to note changes in the rates of financial instruments. Basis points, or 'bps' for short, are most commonly used in quoting interest rate and yield changes.

### Bear

An investor who believes that a security, a sector, or the overall market is about to fall (opposite of bull).

### Bear market

A prolonged period in which investment prices fall.

### Benchmark

A standard of comparison. Generally this term is used in reference to a security, index, or other investors.

### Bid

Also referred to as 'bid price', the bid is the price a party is willing to pay for a security or other instrument.

### Bid-ask spread

The bid-ask spread, also known as the 'bid-offer spread', is the quote of the price at which participants in a market are willing to buy or sell a good or security. Specifically, the bid price is the price at which a party is willing to purchase, while the ask (or offer) price is the price at which the same person or another party is willing to sell the same good or security.

### Bid-offer spread

The difference between the selling price and the purchase price for traded instruments. When you ask a broker what price a currency pair is, they will quote two prices: the bid price is the price at which you can sell a currency pair, and the offer price is the price at which you can buy it. The first is always lower than the second, and the difference between them is the spread. Market makers, who act like wholesalers in the stock market, make their profit from the spread – buying at the bid price and selling at the offer price.

### Blue-chip

A term used to describe the stock of a company that is generally large, national, and has a long history of sustained earnings and dividend payments.

### Bull market

A prolonged period in which investment prices rise faster than their historical average. Bull markets can happen as a result of an economic recovery, an economic boom, or investor psychology.

### Buy

To obtain ownership of a security or other asset in exchange for money or value.

### Cable

The common name for the GBP/USD currency pair.

### Central bank

The generic name given to a country's primary monetary authority, such as the Bank of England.

### Clearing house

An agency associated with an exchange, which settles trades and regulates delivery.

### Close

Closing a position refers to ending one's exposure to movements in the market.

### Collateral

Assets pledged by a borrower to secure a loan or other credit, and subject to seizure in the event of default. Also known as 'security'.

### Commodity

A basic good, such as food, grains and metals, which is interchangeable with other commodities of the same type. Investors buy or sell, usually through futures contracts.

### Consumer Price Index

The Consumer Price Index (CPI) is one of the leading economic gauges to measure the pace of inflation. Simply put, CPI measures the acceleration of price in a fixed basket of goods and services.

### Corporate action

Any event initiated by a corporation that impacts its shareholders.

### Counterparties

Parties on either side of a transaction.

### Credit rating

A published ranking, based on detailed financial analysis by a credit bureau, of one's financial history, specifically as it relates to one's ability to meet debt obligations.

### Currency pair

Because the value of one currency is only relevant when put in terms of another, FX traders will always deal in currency pairs.

### Derivative

A financial instrument whose characteristics and value depend upon the characteristics and value of an underlier, such as a commodity, bond, equity or currency. Futures and options are prominent examples of derivatives. Advanced investors sometimes purchase or sell derivatives to manage the risk associated with an underlying security, to protect against fluctuations in value, or to profit from periods of inactivity or decline.

### Dove

'Dovish' refers to an economic outlook which generally supports lower interest rates. Doves take the position that inflationary pressures are low enough for low interest rates to be desirable.

### European Central Bank

European Central Bank (ECB). The central bank empowered to manage monetary policy for the eurozone – the group of countries that use the euro single-currency.

### Exchange

Any organisation, association or group which provides or maintains a marketplace where securities, options, futures, or commodities can be traded; or the marketplace itself.

### Exchange rate risk

The potential loss that could be incurred from an adverse movement in exchange rates.

### Exit

The way in which an investor closes out a specific position, generally by converting it to cash.

### Exposure

The condition of being subjected to a source of risk.

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### Forward

A contract obligating one party to buy and another party to sell a financial instrument, equity, commodity or currency at a specific future date.

### Forward rate

The rate at which a foreign exchange contract is struck today for settlement at a specified future date.

### FTSE

Abbreviation for The Financial Times Stock Exchange 100 stock index, a market cap weighted index of stocks traded on the London Stock Exchange.

### FX

FX is an abbreviation of 'foreign exchange'. FX is the exchange of one currency for another.

### Good til cancelled

Abbreviated as GTC, which refers to an order to buy or sell which remains in effect until it is either executed or cancelled.

### Greenback

The slang term for US paper currency.

### Gross

The total amount before anything is deducted.

### Hawks

Hawks believe that inflationary pressures are, or will be, high enough to sufficiently erode purchasing power. Hawks generally support higher interest rates, tight fiscal policy and restrictions in monetary expansion in order to keep inflation rates low. Hawkish refers to a negative (high) inflationary outlook and its effects on society.

### Hedge

A hedge is a type of protective investment designed to offset adverse price movements in a given asset. Typically, a hedge is an offsetting position taken in a related security.

### High

The greatest value that a security or currency hits during a specific period of time.

### Historical

Over a specific period of time in the past.

### Inflation

The rate at which prices for goods and services rise.

### Initial margin

The deposit required from a client when they transact a forward order.

### Interbank rates

The FX rates that large international banks quote other large international banks. The difference between the buy rate and the sell rate (the spread can be around 0.07%). Normally the public and other businesses do not have access to these rates.

### Intra-day

In the simplest terms, the purchase and sale, or sale and purchase, of a security on the same day. Day traders aim to make profits on a large number of intra-day transactions. They follow the markets, use technical analysis to spot price trends and get 'in and out' very quickly.

### Limit order

An order given which has restrictions upon execution. The client specifies a price and the order can be executed at the prevailing market price only if the market reaches the specified price.

### Margin call

A call from a broker to a client requesting additional funds to hold as collateral against open positions that have moved adversely.

### Maturity

Date for settlement.

### OCO

One-cancels-the-other order. Where the execution of one order automatically cancels a previous order.

### Offer

The lowest price for which an investor or dealer is willing to sell a given security or commodity.

### Over-the-counter

A security that is not traded on an exchange, due to an inability to meet listing requirements. For such securities, brokers and dealers negotiate directly with one another over computer networks and by phone. Also known as unlisted.

### Segregated customer account

A segregated account is an account used by brokerage firms to keep the customers' assets/money separate from the firm's assets/money. This is a regulatory requirement which then protects customers' funds in the event the broking firm becomes bankrupt, insolvent or is unable to continue as a going concern.

### Settlement

Actual physical exchange of one currency for another between principal and client.

### Stop-loss

A stop-loss is a simple concept designed to limit losses on trading. The investor simply sets a rule that when a security's price gets to a certain level, they will sell/buy the security to close out the original trade, no matter what. Initiation of a stop-loss is automated in most trading software.

### Support levels

A price level at which you would expect buying to take place.

### Target price

The price at which a holder of a stock plans to sell the stock.

### Value date

Settlement date of a spot or forward deal.

### Variation margin

Additional funds to be deposited by a client when an adverse price movement has caused funds to fall below the broker's margin requirement, thus the designated position is not covered with the existing margin value.

### Volatility

A term that refers to the uncertainty or risk change in an underlying securities value.

### Volume

Volume is the number of contracts, shares or any other unit of trade in a security over a certain period of time.